

**QUARTERLY UPDATE  
TO THE LEGISLATURE  
MEDI-CAL MANAGED CARE PROGRAM**

**Period:  
January through June 2006**

**Department of Health Services  
Medical Care Services  
Medi-Cal Managed Care Division**

**MEDI-CAL MANAGED CARE  
QUARTERLY UPDATE TO THE LEGISLATURE**

**TABLE OF CONTENTS**

|      |  |    |
|------|--|----|
| I.   | Purpose of the Update .....  | 3  |
| II.  | Key Milestones and Objectives.....                                 | 3  |
| III. | State Plan Amendments.....   | 7  |
| IV.  | Federal Waivers .....  | 7  |
| V.   | Key Activities on the Medi-Cal Managed Care Expansion Effort ..... | 7  |
| VI.  | Timeline for Managed Care Expansion .....                          | 10 |

## **I. Purpose of the Update**

The Budget Act of 2005 authorized expansion of the Medi-Cal Managed Care Program into 13 new counties: El Dorado, Imperial, Kings, Lake, Madera, Marin, Merced, Mendocino, Placer, San Benito, San Luis Obispo, Sonoma and Ventura. In addition, the California Department of Health Services' (CDHS), Medi-Cal Managed Care Division (MMCD) proposed to convert Fresno County from a Two-Plan model to a Geographic Managed Care (GMC) model. As a condition for authorizing this expansion, beginning January 1, 2006, the CDHS is required to provide quarterly updates to the policy and fiscal committees of the Legislature on the core activities to improve the Medi-Cal Managed Care Program and to expand into the 13 new counties.

The updates shall include:

- Progress or key milestones and objectives to implement changes to the existing program.
- Submittal of state plan amendments to the federal Centers for Medicare and Medicaid Services.
- Submittal of any federal waiver documents.
- Applicable key functions related to the Medi-Cal Managed Care expansion effort.

## **II. Key Milestones and Objectives**

### Collaboration with California HealthCare Foundation (CHCF)

The CDHS partnered with the CHCF to develop enhanced performance standards for Medi-Cal managed care plans for services for persons with disabilities and chronic illnesses. The CDHS received the CHCF recommendations in a report titled, "Performance Standards for Medi-Cal Managed Care Organizations Serving People with Disabilities and Chronic Conditions" on November 21, 2005. The CDHS requested comments and input from its contracting health plans regarding these recommendations.

The CDHS completed an initial analysis of the 53 recommendations to determine the applicability of the recommendations to the target population and assess the feasibility of each recommendation. This analysis and response is undergoing review and approval by the CDHS.

### General Program Activities

The CDHS is currently undertaking or has completed the following actions to enhance and improve the Medi-Cal Managed Care Program:

1. The CDHS has contracted with a consultant firm (Mercer) to research and

analyze various rate methodologies and identify alternatives for determining capitation payments to Medi-Cal managed care health plan contractors. Mercer has made presentations to health plans and sought their feedback on its plan for the study. The CDHS will receive the study findings available in August 2006 and will brief legislative staff and health plans immediately thereafter.

2. Medi-Cal beneficiaries who are also eligible for Medicare benefits (dual eligibles) have the option to receive their Medicare coverage on a fee-for-service basis or through membership in a Medicare health maintenance organization (HMO). CDHS has had a longstanding policy to allow dual eligibles who have enrolled in Medicare HMOs to also enroll in Medi-Cal managed care plans provided that 1) the HMO is the same, 2) there are appropriate adjustments to capitation rates and 3) the Medi-Cal contract formally allows dual enrollment. This would permit HMOs to provide better coordination of care and benefits for Medicare and Medi-Cal services provided to members with dual enrollment. However, MMCD has not fully implemented this policy due to information system barriers and the need to ascertain appropriate rates.

MMCD has begun work on a project to fully implement this existing policy and permit dual eligibles to simultaneously enroll in both a Medicare Advantage (with Part D coverage) or Special Needs Plan (MA/SNP), and a Medi-Cal managed care health plan in Two Plan and Geographic Managed Care counties. (Dual eligibles are automatically enrolled in county organized health system plans and are allowed to enroll in PACE and SCAN plans.) The Medi-Cal HMO must have a current contract with the Department. This work is particularly timely because several of California's Medi-Cal managed care plans have applied or intend to apply to become Medicare Advantage or SNP plans, and they intend to cover dual eligibles.

Currently, if a dual eligible is first enrolled in a MA/SNP and attempts to enroll in a Medi-Cal managed care health plan, the State's enrollment contractor's system will prevent enrollment in the Medi-Cal managed care health plan. Upon completion of this project, the enrollment system will have been changed to allow dual enrollment, contingent on the MA/SNP and Medi-Cal managed care health plan being operated by the same HMO. Additionally, the Department will review rate structures to determine whether it should implement additional rate categories appropriate for dual eligibles enrolled in a Medicare HMO versus dual eligibles who received Medicare benefits in a fee-for-service system.

To facilitate this project, CDHS staff is working in collaboration with the Centers for Medicare and Medicaid Services, the California Association of Health Plans, and the Medi-Cal managed care health plans that have applied or are applying to secure a MA/SNP line of business. These discussions will

allow CDHS to identify and resolve issues related to data systems changes, capitation rates, marketing and beneficiary informing materials. Due to the complexities associated with the system and rate components of this project, CDHS anticipates completion in mid-to-late 2007.

Note: this program enhancement is separate and distinct from the “Medicare HMO Wraparound Pilot’ proposed in Assembly Bill 2979 (Richman). AB 2979 would have allowed new health plans to contract with CDHS to deliver services to dual eligible individuals; whereas this program enhancement is limited to existing Medi-Cal managed care plans.

3. On April 24, 2006, the CDHS sponsored “The Culture of Quality: Part II,” a one-day quality improvement conference at the Sacramento Convention Center. The conference was attended by approximately 160 representatives of Medi-Cal managed care plans, State and Federal agencies, advocate groups, and other health professionals working on quality improvement for the Medi-Cal managed care population. Held annually, this year’s conference focused on various strategies for achieving quality improvement, such as disease registries, quality improvement collaboratives, community linkages and evidence-based best practices. Conference highlights included the presentation of Quality Awards to Blue Cross of California, Santa Barbara Regional Health Authority and Central Coast Alliance for Health, all of which achieved outstanding results in Health Employer Data Information Set performance measures for 2005.
4. The CDHS has executed a one-year extension of the External Quality Review Organization (EQRO) contract with Delmarva Foundation for Medical Care, Inc., effective July 1, 2006. The services of an EQRO are required by federal law to independently measure the performance of Medi-Cal managed care plans in relation to the quality of services provided to beneficiaries. The initial three-year contract with Delmarva began on October 1, 2003, and ended June 30, 2006. The original contract’s scope of work and budget included two optional one-year contract extensions. Reprocurement activities have begun for a new EQRO contract to be effective July 1, 2008.
5. The CDHS reconvened the default algorithm advisory group, made up of health plan representatives, consumer advocates and the California Healthcare Foundation on June 29, 2006, to review the results of the first year of the default algorithm, and to plan improvements for year two. The new default algorithm rewards Two-Plan Model and Geographic Managed Care health plans with a higher percentage of default enrollments based on superior performance on specific performance measures: five Health Employer Data and Information Set (HEDIS) performance measures and two traditional and safety net provider performance measures.

The advisory group’s consensus is that CDHS had successfully implemented

the default algorithm for the first year. The group suggested several changes to year two implementation. The CDHS and consultants are researching and testing the proposed changes prior to the next meeting of the advisory group, scheduled in August 2006. The results of the proposed changes will be discussed with the advisory group, and CDHS will determine which changes should be implemented.

6. In April 2006, the Center for Health Care Strategies (CHCS) invited states to apply to be participants in its Purchasing Institute Technical Assistance (PITA) for Managed Care for People with Disabilities. The PITA is designed to help states who want to improve health care delivery to the SSI-eligible populations through training and educational exchange. CHCS intended to select up to seven states to participate. States selected as participants will receive focused training and technical assistance around specific topics, including a program module on performance measures and a second topic based on state needs and interests. This is a two year project beginning in June 2006. There will be two face-to-face meetings of the participating states, with the first meeting to be held in Indianapolis, Indiana on July 25 and 26, 2006.

California successfully applied to participate in this project along with five other states: Indiana, Nevada, New York, Pennsylvania and Washington. CHCS asked each state to identify a four member team and recommended the team be comprised of the Medicaid Director, Managed Care Director, Medical Director and a data/research specialist. The CDHS completed pre-meeting work in advance of the July 2006 meeting. This advance work included identification of the managed care organizations that serve Medi-Cal beneficiaries in California; documents such as contracts, reporting requirements, HEDIS information, and screening tools; and selection of one of the two top technical assistance areas to work on along with performance measurement. (All states will work on performance measurement and one other topic.) The top two topics from which to select a second project are: 1) case management/care coordination and 2) behavioral health integration. California has selected case management/care coordination since that was a major area of concern identified in the recent partnership with the California HealthCare Foundation.

7. The CDHS provided the Final Contract Award for the Bay Area/Southern California Request for Proposal (RFP) to Molina Healthcare of California Plan Partner, Inc. (Molina). Molina, which is the incumbent contractor, will operate as the Commercial Plan in Riverside and San Bernardino counties under the Two-Plan Model Program. On June 21, 2006, the Hearing Officer for the Bay Area/Southern California RFP sent a letter to Molina informing them that the appeal of Blue Cross of California Partnership Plan Inc.'s (Blue Cross) of the Notice of Intent to Award to Molina based on the rescoring of Riverside and San Bernardino counties was being denied. The rescoring of Riverside and San Bernardino counties was initiated due to the Hearing Officer's previous

decision to uphold Molina's appeal of the original Notice of Intent to Award to Blue Cross based on the original Bay Area/Southern California RFP evaluation.

8. The MMCD is progressing on the development of a model regulation to be circulated for internal review in the near future. Policy staff is in the process of updating existing GMC regulations; where appropriate, to conform to Two-Plan model standards. Both Two-Plan and GMC regulations, where appropriate, are being modified to better conform to current DMHC regulatory requirements. Work is also proceeding to conform language and requirements to the federal Balanced Budget Act (BBA) regulations that took effect in August 2003. Staff is proceeding carefully to make sure that any new requirements can be supported with existing statutory authority and references.
9. The MMCD has completed standardization of its Two-Plan and GMC model boilerplate contracts. The MMCD is now focusing on the standardization of the COHS contract boilerplate, which must be approved by federal Centers for Medicare and Medicaid Services (CMS). At a later stage, the CDHS will be considering inclusion of several CHCF recommendations into all contracts. This item was referenced in the previous report, and is still in process.

### **III. State Plan Amendments**

Expansion of the Medi-Cal Managed Care program into new geographic areas requires an amendment to the State Plan. Based on ongoing discussions with the expansion counties, the CDHS will be considering all three primary models of managed care: GMC, Two-Plan and COHS. These options are subject to federal approval. The CDHS will submit a State Plan amendment once each of the expansion counties has made their final decisions on its preferred model.

In March 2006, the CDHS submitted State Plan Amendment 06-005 to CMS for approval. This SPA addressed the modification of the beneficiary assignment default algorithm, to a performance-based auto-assignment of beneficiaries to the various managed care plans in Two-Plan Model and GMC counties. CMS approved State Plan Amendment 06-005 on June 17, 2006.

### **IV. Federal Waivers**

At this time, it has not been necessary to seek a waiver amendment for Medi-Cal managed care expansion. The managed care model the CDHS and expansion counties agree upon will determine the type of waiver amendments the CDHS will pursue from the CMS. Current federal law limits the number of COHS's in California. Development of either a new 1115 waiver or specific federal statute permitting an additional COHS is required for the creation of any new COHS in

California.

MMCD recently submitted its 1915(b) waiver renewal package to CMS for the Health Plan of San Mateo (HPSM), beginning the 90 day approval clock. The estimated date of approval is September 30, 2006.

Currently, MMCD is in the process of drafting the 1915(b) waiver renewal submission for the Santa Barbara Regional Health Authority (SBRHA). This package will be submitted to CMS by October 1, 2006. The estimated approval date for this waiver submission is December 31, 2006.

## **V. Key Activities on the Medi-Cal Managed Care Expansion Effort**

### Information to Health Plans and Expansion Counties

The CDHS continues to provide health plans and expansion counties with data sources that may be useful in the planning process for the expansion of the Medi-Cal managed care program. These sources are available online and available to all affected stakeholders. In addition, the CDHS is generating updated utilization data reports that will reflect the Medi-Cal beneficiary populations in each of the expansion counties.

The CDHS meets with health plans on at least a quarterly basis through the CEO and Medical Director meetings, in addition to the bi-monthly Medi-Cal Advisory Group meetings to provide updates on managed care and expansion activities.

### Interactions with Expansion Counties

The CDHS conducted a conference call on March 3, 2006, with all managed care expansion counties. This teleconference was organized by the CDHS in conjunction with the County Health Executives Association of California (CHEAC). The majority of the 13 expansion counties, with the addition of Fresno County, participated. Discussion topics included updates on the current status of expansion counties; the roles of the CDHS, counties, and managed care plans; county experience to date; communication; technical assistance availability and next steps. Issues raised included requests for flexibility on the proposed implementation timeline, questions about when rates would be available, the availability of additional utilization data and the interest of Merced and Ventura in pursuing federal legislation necessary to authorize the creation of a new County Organized Health System (COHS).

As of June 2006, eleven of the thirteen expansion counties and Fresno County have endorsed a managed care model they believe is best suited to meet the county needs. Of the remaining two, one county is close to a final decision, and discussions are continuing with the remaining two counties. (See summary



below.) The CDHS is developing a revised timeline for implementation based on these decisions (see chart on page 9). The CDHS is developing prospective capitation rates for the counties of Marin, Sonoma, Lake, Mendocino, Placer and San Luis Obispo counties and will be sharing them with the affected COHS plans for planning purposes (in collaboration with the California Medical Assistance Commission where appropriate.)

- Sonoma County's strategic planning representatives indicated their recommendation to join Partnership HealthPlan of California will be presented to its Board of Supervisors in August 2006.
- El Dorado County is continuing their strategic planning process and their final decision to the CDHS is expected in August 2006.
- Imperial County is continuing their strategic planning process to determine which managed care model to implement and indicated a recommendation to their board is scheduled for December 2006.
- While the San Benito County Board of Supervisors endorsed the CDHS proposal to have San Benito County join the Central Coast Alliance for Health (CCAH) COHS, the county needs to work with local stakeholders and providers to reach mutual agreement with this model. A general meeting between CCAH and local providers is planned to discuss specifics of provider reimbursement, provider responsibilities, and providers' concerns about managed care.
- The CDHS holds biweekly teleconferences with Fresno, Kings, and Madera County representatives. The three counties are developing a Joint Power Agreement that will allow the counties to develop a tri-county region health system infrastructure and governing authority.
- Merced and Ventura county officials are continuing to pursue federal legislation to become new COHS plans.

#### Expansion County Stakeholder Meetings

The CDHS staff continues to meet with and provide technical assistance to counties and stakeholders in discussions related to managed care expansion. In counties where final decisions and Board of Supervisors (BOS) resolutions are received, the CDHS has facilitated discussions between county officials, stakeholders, and health plans.

**Managed Care Expansion  
As of June 2006**

| <b>Expansion County</b> | <b>Implementation Date**</b> | <b>County Board of Supervisors</b> | <b>Original Proposed Model</b>           |
|-------------------------|------------------------------|------------------------------------|--|
| El Dorado               | 3/01/07                      |                                    | Join Sacramento GMC                      |
| Placer                  | 3/01/07                      | *                                  | Join Sacramento GMC                      |
| Imperial                | 3/01/07                      |                                    | Join San Diego GMC                       |
| Fresno                  | 10/1/07                      | *                                  | Regional Two-Plan w/Kings and Madera     |
| Merced                  | 10/1/07                      | *                                  | New COHS                                 |
| Madera                  | 10/1/07                      | *                                  | Regional Two-Plan w/Fresno and Kings     |
| Kings                   | 10/1/07                      | *                                  | Regional Two-Plan with Fresno and Madera |
| Ventura                 | 4/01/08                      | *                                  | New COHS                                 |
| San Luis Obispo         | 4/01/08                      | *                                  | Join w/Santa Barbara COHS                |
| San Benito              | 4/01/08                      | *                                  | Join w/Central Coast Alliance COHS       |
| Marin                   | 4/01/08                      | *                                  | Join w/PHP COHS                          |
| Lake                    | 4/01/08                      |                                    | Join w/PHP COHS                          |
| Mendocino               | 4/01/08                      | *                                  | Join w/PHP COHS                          |
| Sonoma                  | 4/01/08                      |                                    | Join w/PHP COHS                          |

\*The CDHS has received letters from the County Board of Supervisors endorsing the proposed model

\*\* CDHS is revising the implementation dates proposed in Governor's 2005/2006 budget and expects to release the revised schedule in August 2006.